MARCH 5, 1984

CHEMICAL & ENGINEERING

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*Cover:* Pebble-bed nuclear reactor at Schmehausen, West Germany. Photo courtesy of designer Hochtemperatur-Reaktorbau

Volume 62, Number 10
CENEAR 62 (10) 1–52
ISSN 0009-2347

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# Early Retirement Incentive Plans Remain Controversial

**Part of corporate effort to control personnel costs, plans have been prevalent, leave chemical firms' early retirees with greatly mixed feelings**

**David Webber,** C&EN New York

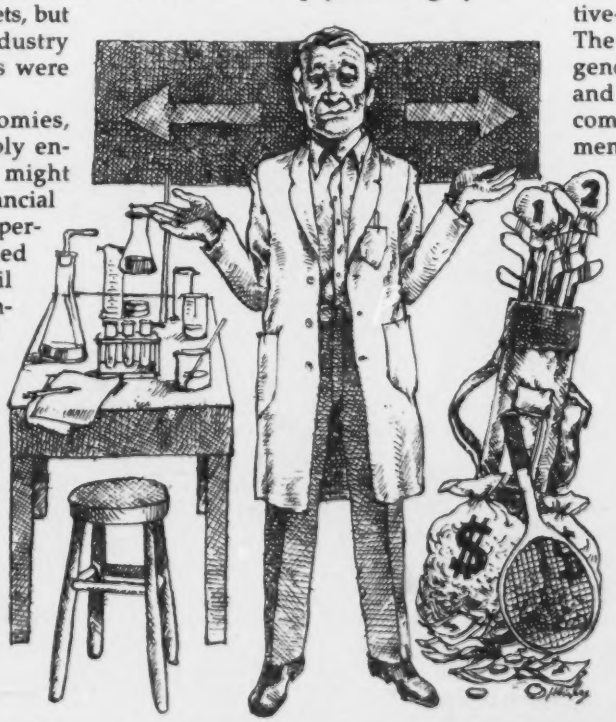
The past few recessions were tough on chemical companies, and they were tough on employees. Hard times brought hard measures. Even Father Yellow, as once-affectionate employees used to call Eastman Kodak, shed his paternal guise and laid off several thousand personnel. Across the chemical industry, from American Cyanamid to PPG Industries, employees lost their jobs. Management expressed its regrets, but explained that if the industry were to revive, economies were unavoidable.

Those necessary economies, however, did not inevitably entail layoffs. Though some might argue for the dramatic financial effect of outright firings, personnel managers cautioned that terminations can entail hidden costs—costs substantial enough to argue for less drastic, more humane alternatives that could lower the layoff quota. Hard to measure quantities, it was pointed out, like morale, work quality, and a company's image as an employer can, if damaged, inflate the ultimate price of an outright layoff to the point at which the savings become short-term and negligible.

Consequently, two major alternatives—hiring freezes and wage freezes—were adopted widely as ways to avoid terminations. The more money a company could save by putting off salary raises and new hirings—abetted by attrition—the less it needed to eliminate positions. Though wage freezes engender disgruntlement, companies reasoned, they trim personnel costs while inflicting relatively minor pain. Hiring freezes, by definition, cannot harm current employees much.

Still, savings from hiring and wage freezes only lowered the layoff quota; they did not erase it. In the arithmetic of budget cutting, it was obvious that the elimination of one salary at, say, $60,000 a year, with its accompanying fringe benefits, would cut the payroll roughly as much as the elimination of two positions at $30,000 each a year. Most of the higher salaries, companies knew, were earned by older employees with many years of service—employees whose greater experience translated, in general, to broad expertise that was of benefit to the company. On the other hand, companies reasoned, the departure of older employees would open career paths for younger employees of the "baby boom" generation, whose bulge in the demographics of the U.S. as a whole often appears in microcosm in corporate personnel rolls.

Chemical management, of course, could have just fired older employees, but, with the hidden costs of layoffs in mind, many chose instead to turn to the third major alternative—early retirement incentives. The rationale: Offer employees, generally those with enough age and service to qualify for the company's normal early retirement option, an inducement to retire early in the form of a cash bonus and other benefits. If enough accept, several firms say, it is possible to reduce the layoff quota.




Early retirement incentives are a far more delicate means of controlling workforce costs, however, than layoffs, hiring freezes, and wage freezes. There is a legal problem. Almost all early retirement incentive plans are aimed at older workers, and employees over age 40 are protected by the Age Discrimination in Employment Act (ADEA). An employee who felt that he or she did not really have a choice be-

tween accepting or declining the incentive could sue under ADEA, a consequence that could be both expensive and damaging to a company's image.

"Perhaps the single most important consideration in planning these programs is to guard against violating ADEA," Towers, Perrin, Forster & Crosby, a Chicago-based employee benefits consulting firm, warns employers. "Eligible employees must understand that participation in the program is completely voluntary."

In principle, such programs are designed to offer employees free choice. In practice, however, some employees have found the distinction between what was truly voluntary and what was involuntary more than a little murky. The most correctly run plans took great pains to make clear to eligible personnel that their jobs would remain undiminished if they declined the offer. Some firms, like Du Pont, went so far in some cases as to offer early retirement incentives (in the targeted divisions) to all but senior executives so that there could be no taint of age discrimination.

In other firms, some former employees say, there seemed less of the gentlemanliness and more of the ultimatum about the offers. They charge that short deadlines for decision, in some cases, and a clearly implied threat that layoff or, at best, banishment to some corporate backwater would follow rejection of the offer, eliminated the voluntary aspect of the programs. What they received, they say, was an offer they could not refuse.

Even one early retiree who feels that his decision was entirely voluntary concedes that less-appreciated colleagues at his company may not have received the same treatment. "In some of the cases," he says, "people were told, 'Well, your job won't be available as is [if you don't accept the offer]. We'll send you to Siberia.' [The company] wouldn't say this outright, just imply that life wasn't going to be very good."

As a result, there is a wide range of opinion about early retirement incentive programs among chemical company retirees who participated in them during the past few years. Chemical management declares emphatically that the plans were devoid of coercion, that no one was forced out of his or her job because of them, and that for many employees, in fact, the incentives amounted to tremendous cash windfalls.

Still, companies remain extremely sensitive about their early retirement incentive programs. Most are reluctant to say much about them—even though almost all the programs seem to have ended now—and several have refused to supply details on how their programs were conducted. As a result, it is difficult to determine just how prevalent such plans were in the chemical industry during the 1981-83 period. Of 12 major firms willing to comment, however, nine offered at least some employees early retirement incentives during the past two years—not a statistically significant sample, but some indication, perhaps, of the popularity of such programs in the chemical industry during the past recession.

This small sample suggests that chemical companies were in the forefront of a wide corporate move to early retirement incentive programs during the past recession. In a late 1983 survey of 490 major U.S. companies (including some 40 chemical firms and diversified firms with chemical operations), Hay Management Consultants, a Philadelphia-based consulting firm, found that such plans played a large role in workplace cost control efforts between 1981 and 1983. As might be expected, layoffs constituted the most prevalent control on personnel costs; 54.6% of the companies had resorted to them. And 51.8% had implemented a hiring freeze during the period. Less popular were wage freezes; only 29.2% of the companies used them. The approach least chosen, though still important, was the early retirement incentive; 28.2% of the sample had used it.

Many of the largest chemical companies ran early retirement incentive programs—also called "open window" plans, because companies typically limit the period in which an eligible employee can accept or decline to a "window" of a few weeks to a few months—during 1982 and 1983. Those firms which had programs include American Hoechst, Celanese, Dow Chemical, Du Pont, Hercules, Mobay Chemical, Monsanto, Olin, PPG Industries, Rohm & Haas, and Union Carbide. On the other hand, other large companies, including American Cyanamid, Ciba-Geigy, and W. R. Grace, did not.

Although there was a good deal of variation among the different companies' programs, there were certain fundamental similarities.

**Early retirement incentive plans played a major role in workforce cost control efforts**

| Location (No. responding) | % of companies taking action | | | |
|---|---|---|---|---|
| | Layoff | Hiring freeze | Wage freeze | Early retirement incentive |
| **Boston** (46) | 43.5% | 45.6% | 26.1% | 28.3% |
| **Charlotte** (27) | 59.3 | 44.4 | 40.7 | 22.2 |
| **Chicago** (60) | 66.7 | 45.0 | 46.7 | 38.3 |
| **Dallas** (40) | 85.0 | 85.0 | 40.0 | 25.0 |
| **Los Angeles** (40) | 35.0 | 27.5 | 17.5 | 15.0 |
| **Miami** (16) | 43.8 | 50.0 | 12.5 | 12.5 |
| **Minneapolis** (51) | 50.9 | 52.9 | 17.6 | 29.4 |
| **New York** (65) | 32.3 | 47.7 | 18.5 | 24.6 |
| **Pittsburgh** (47) | 65.9 | 65.9 | 46.8 | 51.1 |
| **San Francisco** (49) | 63.3 | 46.9 | 18.4 | 16.3 |
| **Seattle** (28) | 53.6 | 53.6 | 25.0 | 28.6 |
| **Stamford** (31) | 58.1 | 61.3 | 35.5 | 32.3 |
| **TOTAL** | **54.6%** | **51.8%** | **29.2%** | **28.2%** |
| **No. of companies** | **273** | **259** | **146** | **141** |

**Note:** For period late 1981–late 1983 for 490 companies. **Source:** Hay Associates' "1983 Hay Compensation Conference Proceedings"

## "Open window" experiences: some bitter, some sweet

Frank Marsh was a research chemist with 35 years of service in Du Pont's central research department outside Wilmington, Del., when informed in late 1982 that he was eligible for the company's "voluntary termination incentive." Marsh, 63 years old at the time, says he had planned to work to age 66 or 68. Financially, he says, the plan for him was more or less a "break even."

"When the plan was announced, I said to myself, 'This is not for me.' I had no idea of retiring. Nobody worried about being fired. The common reaction was, 'This is not for me.' Almost all my cohorts in my age group said that. Then eventually they did accept it. Almost no one came right out and said this is what I've been looking for. It grew on us slowly. I hated to leave my job. The most frustrating part was not being psychologically prepared to retire.

"It absolutely was voluntary termination. No one was forced out. Some were encouraged, let us say. No one was told, 'You have to retire.' But there are several ways of handling this situation. I'd say 98% were strictly voluntary, and about 2% were encouraged with a, 'You know, it's going to be much better for you if you take it.' The people who were not producing were kind of encouraged, but I think Du Pont would have kept them on forever if they had decided they wanted to stay.

"You are terminated very quickly. One day you're in the thick of it, and the next day you're out cold. Still, Du Pont needed to reduce staff. They did it in a way as best they could. There was every concern for the person. It was done very kindly."

Gilbert Du Pertuis was 57 years old and a senior research chemist at Kerr-McGee's technical center in Oklahoma City, Okla., when informed of his eligibility for an early retirement incentive in October 1982. Du Pertuis, who had been with Kerr-McGee for nearly 30 years, has not yet found another job.

"I don't consider it to have been any kind of incentive at all. I felt I was given a choice of taking early retirement or nothing at all. There was nothing spelled out except the terms of early retirement. But there was nothing in the way of [voluntary] incentive; I wasn't presented with the proposition that I could have this and this and this if I retired then. I was given no choice about whether or not I was going to stay on. We were out. We were given a choice of whether or not we would collect retirement or not. There wasn't any point in not collecting it."

Henry Bader was a Polaroid research fellow, the company's highest scientific grade, when informed of his eligibility for an "open window" program in late 1981. Bader, who was 62 years old at the time and had been with Polaroid for 17 years, says that he received the first unsatisfactory performance rating of his career shortly before the "window" was scheduled to open in February 1982—an anomaly he considers evidence of pressure.

Bader says he also was informed that a regular layoff would follow the early retirement incentive program, at which point his position would be downgraded two levels.

Before this, Bader says, he attended a senior staff meeting at which top management laid out the general goals of the open window program. "I had no idea I would be one of the targets at that time," he says, "but I came out of the meeting with the idea, 'They're getting rid of the old-timers.' "

Bader now works as a bench chemist for a cancer institute attached to Harvard University. He has filed an age discrimination suit against Polaroid, seeking reinstatement of his position there. The case may come to trial later this year, he says.

Typically, for instance, employees had several weeks' notice that a window would be opening. The windows themselves—limited in duration as a means for employers to control the acceptance rate—remained open for four weeks to two months.

At some companies, eligible employee groups included all employees who met age and service requirements. At others, eligibility was limited to salaried personnel, and, in many cases, to salaried personnel in only certain targeted departments. In most of these plans, employees had to be 55 years old or more and had to be vested in the company's pension plan to be eligible.

Acceptance of the offer by eligible employees ranged from 45 to 65%. Consultants who specialize in such plans say that an acceptance rate of 33% is more typical.

Cash bonuses, especially in the more generous offers, were typically computed by multiplying an employee's years of service by an amount ranging from one to two weeks' pay. As a result, some early retirees collected (or are receiving in installments) as much as a year's salary for departing. In addition, many plans paid for accrued vacation time, waived pension benefit reductions that normally apply to early retirements, and continued medical, life insurance, and other benefits to age 65 on the same basis as that for current employees.

As a result, the anecdotal literature of open window plans is replete with tales of 64-year-old employees who, on the verge of normal retirement, suddenly found themselves offered a huge cash windfall to leave their firm a few months before they would have anyway. And there are the stories of employees who turned down the offer, found it necessary a few months later to retire because of illness, for instance, and found that the window had closed.

Nor are employers always assured of success when they launch an early retirement incentive program. Towers, Perrin, Forster & Crosby, for example, points out that since the decision to retire is a highly individual one, it is very difficult to predict the actual number of departures that will occur. There is a danger that too many people will accept the offer, leading to possible serious personnel shortages in individual areas.

"Let's say you get lucky, and ex-

actly a third of your employee group [the acceptance rate that had been targeted] takes the offer," remarks Thomas Jolls, employee benefits consultant in Towers, Perrin's St. Louis office, "but you've got a lab in Akron, Ohio, say, with 10 people in it, and every one of them takes it. You've hit your one-third target, but you've created a devastating problem for that facility."

The difficulty of predicting acceptance rates and concentrations keeps many companies from using the open window option, Jolls says. Firms that are willing to take the risk, he notes, often make contingency plans to cope with unbalanced acceptance rates.

"[These companies] say, 'We'll take our chances, and we will work out suitable transition arrangements if that happens.' So essentially what they do is that they then go to two or three of the people in that group of 10 and they beg. They say, 'Look, you've applied, and you're entitled, but we'd like you to stay on for an additional six months, and we will give you this further economic reward for doing that.' That can work pretty well," Jolls explains.

Another partial solution, he points out, is a quota system. Some companies have set quotas for each department affected by an open window plan. If too many employees decide to accept the offer, the company restricts eligibility to the first to sign up within the limits of the quota.

"That's kind of a clever thing," Jolls says, "because it also stimulates people to get their applications in quickly. One of the characteristics of plans like this is that everybody waits until the last day, and then, by the time everyone involved in administering the program has his or her nails bitten down to their elbows, on the last day you get all the applications."

There is little doubt that early retirement incentives can be a great financial boon to some employees. Many early retirees note that, despite the trauma of suddenly leaving work several years before they had expected to, the money offered was too attractive to pass up. However, not all those who are the subjects of an open window incentive

***Jolls: acceptance rates can be problem***

achieve financial security by accepting it. For them, the idea is to follow early retirement from one firm—regardless of whether they felt their acceptance was voluntary—with another job elsewhere. But because of their age, not all have been able to find one.

"In dollars and cents, it can be very appealing in the short term," says Karen Ferguson, director of the Pension Rights Center, a retiree advocacy organization in Washington, D.C. "They're going to get this money, and they're going to go get another job, and they're going to be in fine shape. But it isn't realistic. Rarely can they find a job, because of age discrimination."

Part of the reason employers and employees don't always perceive a plan's character in the same way may be that there are several possible motives for implementing open window programs, motives that go beyond the desire on the part of companies to limit the need for layoffs. Towers, Perrin, Forster & Crosby lists four basic ways open window programs can help a company during hard times: They can avoid the need for involuntary layoffs; streamline organizational structure; terminate less-productive employees; and open career paths for younger employees. These motives are not mutually exclusive.

Towers, Perrin's Jolls argues that using early retirement incentives for reasons other than avoiding layoffs is not necessarily negative. "We've all met people who are in middle life, who have worked for the same organization for a long time, and who essentially have made their contribution," he says. "They feel stale, but on the other hand, they're at their peak earnings. They do not quite have the financial security to retire, and they are often not emotionally up to the idea of changing jobs, particularly if it means a change in location. So they're sort of stuck. If an individual is in this situation, it's his problem, but if a company has a lot of such individuals, it's a company problem, too. What I've seen happen is that a program like this comes along, and individuals who are in this kind of situation look at it and see that whatever the supplement is, in effect, the individual says, 'Gee, this is just what I wanted. This makes it possible for me to do what I really want to do instead of continuing to work for Megacorporation X in my job, which I once enjoyed, but which no longer stimulates me.' "

Although there is little doubt that there are many cases like this, it seems it would be difficult to prove, however, that such individuals also represent the preponderance of cases. A number of early retirees who spoke with C&EN, including some who were generally pleased with their open window plan, say that they were extremely interested in their work and wish they could somehow continue to pursue it. One chemist, in fact, has suggested to his former employer that it set aside a laboratory in which retired scientists could complete, at reduced pay, projects begun before early retirement.

Clearly, it's a mixed bag. Some employees benefit tremendously; some feel horribly abused. Consultants who help companies organize open window programs believe they are beneficial in general, at least. "It's probably the most tasteful of the vehicles available to handle economic downturns in lieu of layoffs and salary cuts," remarks Kenneth P. Shapiro, president of Hay-Huggins, the actuarial and benefits consulting subsidiary of Hay Associates. □